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National Intelligence Bulletin

November 1, 1974

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SOUTH VIETNAM

President Thieu may be having trouble finding qualified replacements for the four cabinet ministers who resigned last week. According to the US embassy in Saigon, at least two people--a leader of the moderate opposition and a newspaper publisher--have turned down the Ministry of Information portfolio. Some potential candidates in the opposition ranks have told embassy officers that they would be unwilling to join the Thieu government without assurances of a "change in policy."

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Meanwhile, there are rumors that as many as six other cabinet ministers will resign. The embassy says the government will not confirm or deny these reports,

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but the embassy believes additional members of the government could leave as part of a general shake-up designed to deflate opposition charges of government inefficiency and corruption.

Demonstrations and other incidents are continuing in Saigon. More are scheduled for today--South Vietnam's National Day. Most of this activity has been limited and handled easily by the police. Overall, the police have reacted with restraint--an approach that has produced no martyrs and should help the government's image. Thieu, however, seems determined not to have any violent confrontations in Saigon during the National Day period, and a tougher approach could develop. Central Saigon has been cordoned off and large numbers of police have been posted throughout the city. The massive police presence, as well as some violent incidents, is contributing to the highly exaggerated press accounts of the situation.

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SPAIN

Prime Minister Arias has reaffirmed his intention to continue gradual political liberalization, despite the replacement this week of two liberal cabinet members. In a speech before a labor organization meeting on Wednesday, Arias claimed that the government was determined to give the people a voice in national as well as local administration. He promised laws that would bring improved working conditions and others that would give workers a larger voice in settling labor disputes.

In ordering the cabinet change, Franco apparently carried out yet another of his balancing acts in which he seems to yield to pressure from rightists by replacing cabinet members but does not change basic policy lines at the same time. Moderates and liberals are still concerned, however, that the ouster of the liberal information minister signals a turn to the right and the shelving of any real liberalization program.

To avoid disturbing the liberals further, the government has postponed indefinitely the trial of five leaders of an illegal socialist trade union. The defendants have been charged with "illicit association" and "possession of illegal propaganda," and rightists have insisted on stiff penalties for what would be regarded as normal trade union activities in other countries. The government decided to sidestep the issue by postponing the case on grounds that new evidence against one of the accused required further study by the court.

The real measure of how much Arias' liberalization program may have been set back will come when the Prime Minister presents his bill to permit the formation of political associations, which he has promised by the end of the year. Rightists object to this move because they fear the associations will become full-fledged political parties that will usurp the role reserved to Franco's National Movement. Far more serious polarization may result if the Prime Minister's program is further watered down.

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ARAB STATES

The formal request by the Arab League to postpone the UN General Assembly debate on Palestine, announced yesterday by the UN Secretariat, suggests that the Arabs need more time to assimilate the results of the Rabat summit conference. They have asked that the debate begin on November 13 instead of next week.

Arab leaders are now committed to attend National Day celebrations in Algiers this weekend, to holding a "confrontation states" conference with Yasir Arafat sometime soon, and to receiving Secretary of State Kissinger late next week.

There has also been some talk at the UN about having the Palestine Liberation Organization seek permanent representative status, and time may be needed to establish an Arab League position on this idea.

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WEST GERMANY - IRAN

Despite opposition from the US and from within the EC itself, Bonn is likely to persist in its efforts to secure EC approval for extending duty-free status to Iranian petroleum products. The drive to strengthen relations with Iran derives from West Germany's determination to develop secure and diversified sources of oil.

Iran's agreement to award West Germany a contract to construct a large petroleum refinery is in large measure contingent on Bonn's support in obtaining an appropriate EC commercial agreement. High-level German officials are heavily committed to the success of the project. 25X1

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Early this year, Tehran expressed interest in negotiating a new trade agreement with the EC that would assure free access for Iranian-manufactured items produced in the framework of EC-Iran cooperative arrangements and duty-free status for petroleum products from the refinery to be constructed by the Germans. The US has made strong representations in Bonn and other EC capitals, pointing out that a preferential agreement with Iran would contravene GATT provisions and previous EC commitments to the US on nonproliferation of special trading arrangements.

Some EC governments, meanwhile, may be under strong pressure from their own energy officials, as well as from Iran, to met Tehran's wishes. Their obvious dilemma is that they will anger a major oil producer or a major ally whichever way the decision goes. Most have assured the US of their support; their real preference, of course, is not to have to choose. They hope that the US will take up the problem with Tehran on a bilateral basis.

The matter assumes particular importance in light of the EC's efforts to cultivate the Arabs during EC-Arab talks on general economic cooperation. In all likelihood, Arab oil producers resent any preferential

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treatment accorded Iran by the EC, and they might demand similar arrangements for themselves. Although the talks are still in the procedural stage, the EC made organizational proposals to Arab representatives in Cairo earlier this month, and the first meeting of a General Commission is expected to take place in Paris in late November.

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CANADA - WESTERN EUROPE

Prime Minister Trudeau met with only moderate success during his mission to Europe late last month. Trudeau went to Brussels for talks with EC and NATO officials, and to Paris to emphasize the end of strained relations with France.

Trudeau was not able to get the EC foreign ministers to agree to a nonpreferential trade agreement with Canada. One of Trudeau's main foreign policy goals is to decrease Canada's dependence on the US, and he regarded an agreement with the EC as a visible step in this direction.

Instead, the EC foreign ministers approved a joint statement that referred only to strengthening Canadian-EC ties. The EC is reluctant to establish contractual links with Canada, because this would set a precedent for demands from other industrialized countries.

Trudeau's stop in Paris was more successful. The Prime Minister was warmly welcomed by President Giscard d'Estaing. This signaled a change in relations that had been cool ever since De Gaulle's controversial trip to Canada in 1967. Two bilateral working groups were established to help promote trade between the two countries.

Although Trudeau did not get the EC trade agreement he was counting on, Ottawa plans to continue pressing the EC and others to expand their economic ties with Canada. Canada and the EC countries agreed to continue to explore the relationship, and more talks may be in the offing.

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UK

The Wilson government's plans for a new wealth tax and a capital transfer tax are the first changes in these levies in 80 years. The new taxes are seen by the Wilson government as a further commitment to the "social contract" which trades voluntary wage controls by the unions for increased social welfare legislation.

The capital levy proposal is in final form, and passage in the next Parliament is considered certain. The capital tax, expected to be made retroactive to March, will have rates of 10 percent on capital transfers above $35,000, mounting to 75 percent for amounts of over $4.7 million. Most of the numerous loopholes in the current estate tax will be closed.

The proposed wealth tax, not yet in final form, is much more controversial. The tax would assist in the redistribution of wealth--about 1 percent of the UK's adult population holds 25 to 30 percent of all personal wealth.

London's thinking is for a threshold of $233,000 with rates at 1 percent possibly rising to 5 percent for assets over $11.7 million. The tax would be applied to houses, business assets, farmlands, antiques, and works of art. It would not become law until 1976, but it has already begun to draw heavy criticism. Fears abound that the tax would bankrupt farmers and small businesses, and contribute to an outflow of Britain's art treasures.

London is aware that taxation of income-earning assets would be economically unsound at a time when the country faces serious recessionary problems. Since the levy would apply to all business assets, including new investment goods, any investment in or expansion of business would likely be discouraged. The government is trying to rework the proposal to avoid these problems.

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FRANCE

In a press conference on October 24, President Giscard d'Estaing outlined a graduated-response policy that calls for use of strategic nuclear weapons only against a similarly armed enemy or when French territory is directly threatened. Other threats are to be countered by conventional means.

This announcement, along with earlier public confirmation of plans to increase the number of nuclear-powered ballistic-missile submarines from five to six and to begin underground nuclear testing in the Pacific next year, as well as endorsement of the late President Pompidou's policy concerning use of tactical nuclear weapons, strongly suggests that the nuclear portion of the review is complete.

Army doctrine has been modified to conform to government policy, established before Pompidou's death, that delegates authority to use tactical nuclear weapons to the commanding general of the 1st Army at the time it is committed to combat. The President retains the authority to commit the 1st Army, which has two divisions in West Germany and three in eastern France. This decision, the first known to have been made on the delegation of tactical nuclear authority, means that the commanding general of the 1st Army has at his disposal Pluton missiles and nuclear-armed tactical aircraft.

All of this is consistent with France's concept of a European war and of its current army deployments. The French believe that hostilities in Europe would escalate rapidly into a nuclear conflict, and the 1st Army would be in a position to act in a reserve or reinforcing role after hostilities have begun.

Giscard also stressed the significance of conventional forces. He hinted that they would be reorganized as well as given new armaments and increased mobility. Earlier reports had indicated concern in the government over the cost-effectiveness disadvantage of conventional compared to nuclear forces. Consideration of this subject may be continuing, since there are no indications as yet of any decisions on changes in non-nuclear forces. Budget limitations will probably make implementation of any improvements in conventional forces a long-range program.

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LEBANON

Rashid al-Sulh, a relative unknown, has succeeded in forming a cabinet acceptable to most of the confessional and political blocs. The new 18-man cabinet, which has the approval of President Franjiyah, is made up mostly of members of parliament and contains three holdovers from the previous government. The new prime minister succeeds Takieddin al-Sulh, who resigned on September 25 and has headed a caretaker government since that time.

Franjiyah had earlier named conservative Saib Salam as premier-designate, but Salam, who was opposed by parliamentary factions supported by Syria and the fedayeen, was unable to agree with Franjiyah on the composition of a new government. Franjiyah had opposed Salam's efforts to create a more competent and effective government than that of his predecessor by naming younger technocrats outside of government to ministerial posts.

The Rashid al-Sulh government, with its traditionalist parliamentary makeup, seems likely to follow the cautious policies of the previous government.

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LAOS

Prime Minister Souvanna Phouma, who has spent the last few months convalescing in France from the serious heart attack he suffered in mid-July, is scheduled to return to Vientiane today.

According to officials in the French Foreign Ministry, the Prime Minister's recovery has not been as good as expected. Souvanna recently told US embassy officers in Paris that he has recovered only 80 percent of his physical capabilities and that he will need further convalescence.

The Prime Minister apparently intends to continue his recuperation in Luang Prabang, at least until the end of the year. Khamphan Panya, the coalition government's newly appointed ambassador to Washington and a close confidant of the Prime Minister, is convinced that Souvanna will remain relatively inactive while in the royal Lao capital and that contentious political issues will remain on the back burner.

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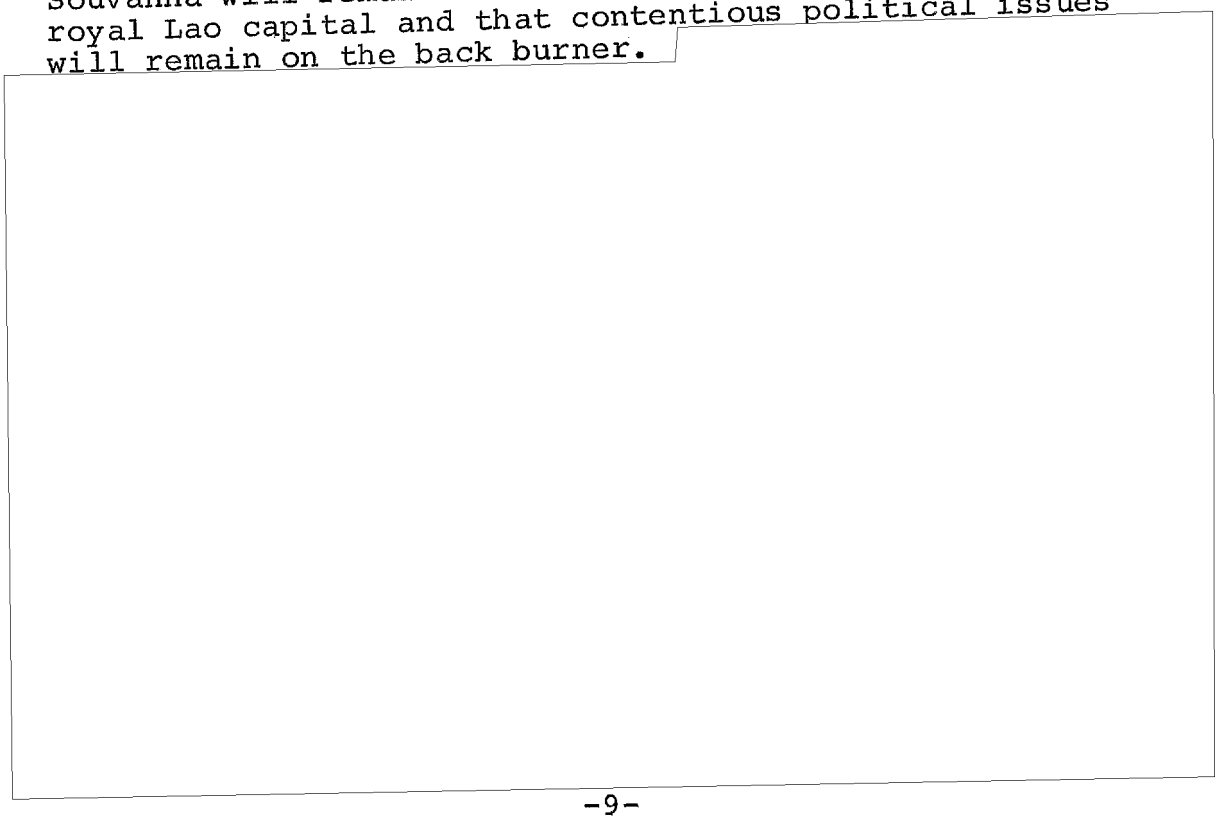

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